



BRIEFING NOTE TO THE DEPUTY MINISTER

OVERVIEW OF ONTARIO'S 2018 ECONOMIC OUTLOOK AND FISCAL REVIEW

(For Information)

PURPOSE

- This note highlights key infrastructure priorities announced in Ontario's Fall Economic Statement that was tabled on November 15, 2018, and potential implications for Infrastructure Canada. A copy of Finance Canada's summary is attached (Annex A).

HIGHLIGHTS/KEY CONSIDERATIONS

- **Toronto Transit Commission (TTC) Subway Upload:** The provincial government will develop a plan to upload the subway infrastructure from the City of Toronto to the province to better enable the government to fund and deliver additional transit projects, and support an integrated regional network.


- **Metrolinx Agency Review:** As part of Ontario's ongoing review of all programs and departments, a review of Metrolinx was announced to better plan transportation in the Greater Golden Horseshoe area.

- **Three-year Infrastructure Plan:** On November 15, 2018, Marc Fortin spoke to Ontario's Ministry of Infrastructure

- **Restoring balance:** Given that the provincial government is focused on reducing spending and balancing the budget,

NEXT STEPS

- Department officials will continue to engage with the province and monitor developments in order to determine potential impacts for the ICIP and the CIB.

	<u>NOV 21 2018</u>
Gerard Peets Assistant Deputy Minister Policy and Results Branch	Date

FALL ECONOMIC STATEMENT – Ontario November 15, 2018

MAIN MESSAGES

FISCAL: The Government of Ontario is now projecting a deficit of \$14.5 billion (1.7 per cent of GDP) for 2018-19. This represents a *deterioration* of \$7.8 billion compared to the previous government's Budget 2018 forecast, and a \$0.5 billion *improvement* from the revised \$15.0 billion deficit baseline published by the Independent Financial Commission of Inquiry (IFCI). The province's net debt-to-GDP ratio is expected to increase from 39.2 per cent in 2017-18 to 40.5 per cent in 2018-19.

EXPENDITURES: The government has announced a number of spending restraint measures (e.g., freezes on hiring and discretionary spending). It will also not proceed with select policy measures announced by the previous government (e.g., spending related to Cap-and-Trade Carbon Tax proceeds). OHIP+ will be reformed, and targeted investments to support communities and families were also announced.

ECONOMIC: Ontario's real GDP growth is expected to slow to 2.0 per cent in 2018 and 1.8 per cent in 2019, following growth of 2.8 per cent in 2017. The outlook for growth reflects moderate household consumption growth, supported by rising employment and higher incomes, and improved business investment. In 2018, the unemployment rate is expected to decline to 5.6 per cent before levelling out to 5.5 per cent over the remainder of the outlook.

TAX: The Fall Economic Statement proposes to introduce a non-refundable Low-income Individuals and Families Tax (LIFT) Credit, effective for the 2019 tax year. The Statement also proposes to increase the Employer Health Tax exemption from \$450,000 to \$490,000, effective January 1, 2019. Ontario announces that it will parallel federal tax measures that accelerate deductions for new depreciable assets. The government will not proceed with announcements made in the 2018 Budget, including: 1) adjustments to the rates, brackets, surtax and credits for personal income tax; 2) mirroring federal changes to the taxation of private corporations with respect to the small business limit; and 3) enhancements to the Ontario Research and Development Tax Credit.

FEDERAL-PROVINCIAL RELATIONS: Ontario reports that it will receive \$0.5 billion less from the federal Equalization program in 2018-19. It calls for a review of overall federal transfers to ensure that transfers do not create additional fiscal and administrative burdens, and are adequate for provincial needs.

FISCAL SUMMARY **2017-18 to 2021-22**

	2018-19	2018-19	2018-19
(\$ millions)	Budget 2018	Independent Financial Commission of Inquiry (IFCI) Revised Baseline ^{1,2}	Update 2018 Forecast
Revenues			
Own-Source	126,455		122,225
Federal Cash Transfers	26,006		26,006
Total	152,461	150,900	148,231
Expenditures			
Programs	145,922	152,400	149,232
Debt Charges	12,543	12,500	12,543
Total	158,465	164,900	161,775
Reserve	-700	-1000	-1000
Budgetary Balance	-6,700	-15,000	-14,544
Net Debt	325,041	349,800	347,055
Per cent of GDP			
Revenues	17.6	17.6	17.3
Expenditures	18.3	19.2	18.9
Budgetary Balance	-0.8	-1.7	-1.7
Net Debt	37.6	40.8	40.5
	2017	2018	2019
Real GDP growth (in %)	2.8	2.0	1.8

- Released September, 2018. The revised baseline from the Independent Financial Commission of Inquiry (IFCI) reflects accounting methodology changes recommended by the Auditor General of Ontario, policy measures announced by the previous government, more recent economic data than reported in Budget 2018, and removed estimates of planned savings by the previous government where specific measures had not yet been identified.
- Net debt-to-GDP ratio restated to reflect most recent Statistics Canada GDP figures.

Note: Totals may not add due to rounding.

FISCAL SITUATION

- For 2018-19, the Ontario government now projects a deficit of \$14.5 billion (1.7 per cent of GDP). This represents a *deterioration* of \$7.8 billion compared to the previous government's budget 2018 forecast, and a \$0.5 billion *improvement* from the revised \$15.0 billion deficit baseline published by the Independent Financial Commission of Inquiry (IFCI) in September 2018.
- The improvement relative to the IFCI baseline reflects:
 - A \$2.7 billion reduction in projected revenues, largely due to eliminating planned tax increases and cancelling the cap-and-trade carbon tax.
 - \$3.2 billion in program expense savings, primarily due to savings from expenditure management restrictions, updated spending forecasts, and not proceeding with select policy measures announced by the previous government in its 2018 Budget.
- The forecast also includes a \$1.0 billion forecast reserve, as recommended by the IFCI.
- The government did not publish a medium-term forecast in this document. It did commit, however, to achieve fiscal balance with a "modest, reasonable and pragmatic timetable," and to pursue a debt reduction strategy. More details will be available in Budget 2019.
- The net debt-to-GDP ratio is projected to increase from 39.2 per cent in 2017-18 to 40.5 per cent in 2018-19.

HIGHLIGHTS OF RECENT MEASURES

- The government announced it has made \$300 million in targeted investments for communities and families, including:
 - Additional funding to provide 1,110 beds and spaces in hospitals and the community;
 - Providing new tools and resources for police to combat drug, gun and gang-related violence; and,
 - Additional resources to fight forest fires and protect the Muskoka Watershed.
- The government also reported on several expenditure management restrictions imposed since taking office, including a hiring freeze (in all areas but front-line services), a freeze on discretionary spending, the cancellation of subscription-based services, and restrictions on travel, meals and hospitality spending.

- In addition, the government will not be proceeding with previously planned spending related to Cap-and-Trade Carbon Tax proceeds, and other regional infrastructure projects and expenditure programs that were deemed to not provide value for money.
- The government also announced it plans to reform OHIP+, with expected savings of at least \$250 million annually.

ECONOMIC

- Ontario expects real GDP growth to slow to 2.0 per cent in 2018 and 1.8 per cent in 2019, down from 2.8 per cent in 2017. Broadly speaking, growth is expected to moderate on account of limited economic capacity, higher interest rates and slowing U.S. economic growth.
 - The outlook for real GDP growth was informed by a private sector survey, which was revised down slightly for prudent fiscal planning purposes. On average, the private sector economists were expecting real GDP growth of 2.1 per cent in 2018 and 1.9 per cent in 2019.
- Compared to Budget 2018, modest downward revisions were made to the economic outlook. In particular, the outlook for real GDP growth in 2018 was revised down by 0.2 percentage points, reflecting slow growth in the first quarter of 2018 and uncertainty related to global trade arrangements. The outlook over the remainder of the outlook was moved marginally lower in some years.
 - Nominal GDP growth in 2018 was also revised lower, reduced by 0.3 percentage point to 3.8 per cent. In 2019, nominal growth is expected to remain at 3.8 per cent, or 0.1 percentage point lower compared to Budget 2018.
- A number of upside and downside risks to the economic outlook were outlined in the statement.
 - On the downside, high household debt levels combined with faster-than-expected interest rate hikes could have a significant negative impact on household and government spending. As well, recent volatility in Ontario's housing market could resume, posing a further downside risk to the economy.
 - On the upside, the recently announced USMCA on trade is expected to lessen uncertainty and potentially boost economic growth by prompting higher business investment and exports. Business investment growth may be further reinforced by the fact that the economy is operating near capacity and growth in the U.S. remains strong.

- Employment growth is expected to ease to 1.5 per cent in 2018 before averaging around 1 per cent each year thereafter. Meanwhile, the unemployment rate is expected to decline to 5.6 per cent in 2018 before levelling off at 5.5 per cent each year.

TAX

Personal Income Tax Measures

- The Statement proposes to introduce a new non-refundable Low-income Individuals and Families Tax (LIFT) Credit, starting with the 2019 tax year. The LIFT Credit would eliminate or reduce Ontario personal income tax for low-income Ontario taxpayers who have employment income.
- Tax filers who have employment income would receive up to \$850 in tax relief (or up to \$1,700 for couples). Tax relief would be gradually reduced for taxpayers with individual incomes greater than \$30,000 and family incomes greater than \$60,000.
- The Statement announces that the Government will not proceed with announcements made in Budget 2018 related to the adjustments to rates, brackets, surtax and credits for Ontario Personal Income Tax.

Business Income Tax Measures

- To support Ontario's tax competitiveness, the Ontario Government announces that it would parallel federal tax measures that accelerate deductions for new depreciable assets.
- The Statement announces that the province would not mirror federal changes to the small business deduction, which would phase out access for small businesses earning between \$50,000 to \$150,000 of passive investment income in the year.
- The Statement announces that it will review tax support provided for research and development activities rather than proceed with the implementation of the 2018 Budget changes to the Ontario Research and Development Tax Credit and the Ontario Innovation Tax Credit that would have linked a corporation's tax credit rate to the level of its investment in research and development.
- With respect to employer health tax relief, the government stated that it will increase the payroll threshold that is exempt from the Employer Health Tax (EHT). For eligible private-sector employers, the first \$450,000 of payroll is currently exempt from EHT. This amount is scheduled to increase to \$490,000 in 2019.

Sales and Excise Measures

- The Statement announces that the Ontario government intends to pursue new transparency measures to ensure that consumers are informed about the breakdown of costs of what it refers to as the “federal carbon tax” (on natural gas bills and gas pumps, for example).

Integrity Measures

- The Statement announces that the Government is not moving forward with the 2018 Budget announcement on exploring measures to target the Employer Health Tax (EHT) exemption.
- Ontario had proposed measures to better target the EHT exemption by following the eligibility criteria for the Small Business Deduction. As a result, the exemption would have been available only to individuals, charities, not-for-profit organizations, private trusts and partnerships, and Canadian-controlled private corporations.
- The Statement proposes to parallel a federal change that allows payers of the tax on split income to apply the disability tax credit against that tax.

Other Tax Measures

- Ontario government proposes an amendment to the *Assessment Act*, which, if passed, would create a province-wide property tax exemption to properties occupied by branches of the Royal Canadian Legion.

FEDERAL-PROVINCIAL RELATIONS

Federal Transfers

- Ontario reports that it will receive \$0.5 billion less from the federal Equalization program in 2018-19. Ontario also points out that federal transfers to Ontario are not adequate to meet the growing costs of health care and other services provided to Ontario families. They also note that federal transfers are not allocated based on clear and consistent principles and charge that increasingly prescriptive rules in federal–provincial agreements are creating fiscal challenges and limiting its flexibility to pursue provincial priorities. Given these considerations, they note that a review of federal transfers is needed.
- Ontario also calls on the federal government for adequate funding in areas of federal responsibility such as irregular migration and Indigenous programming.

Healthcare

- Ontario will match the federal commitment to invest \$1.9 billion in mental health and addiction services over the next decade.

Housing

- To address affordability, Ontario will launch a Housing Supply Action Plan in spring 2019 to address barriers that inhibit the development of ownership and rental housing. Public and stakeholder consultation will begin immediately. The Plan will include both short- and longer-term actions that could be undertaken over the next 18 months.

Natural resource development

- Ontario commits to increase energy market access noting that they will not stand in the way of projects that transport oil from Western Canada to Ontario or Canada's East Coast and that they would support changes to the Canadian Free Trade Agreement to this end.

Northern development

- Ontario commits to advancing mining development in the Ring of Fire, and will explore ways to encourage natural resource development by helping Northern towns and Indigenous communities share in the benefits of resource development.
- Ontario will work with distributors to expand access to natural gas for rural and Northern communities.
- Moreover, it will release a broadband and cellular strategy in early 2019, with an action plan to expand broadband, digital services and cellular access in unserved and underserved areas.

Carbon Pricing

- The Statement notes that Ontario cancelled its cap-and-trade system as part of its plan to reduce costs and regulations for Ontario businesses. It states that the elimination of cap-and-trade will provide direct savings of an estimated \$880 million in 2019 to Ontario private-sector businesses.
- The Statement also reaffirms Ontario's opposition to the federal carbon-pricing plan, which it considers unconstitutional and unfair to Canadians. The government has filed a reference case to challenge the federal carbon tax at the Ontario Court of Appeal, and will be participating in Saskatchewan's constitutional challenge.
- It also plans to pursue measures that would improve the transparency of the cost of the federal carbon tax, such as ensuring the cost is broken out and listed on items including natural gas bills, gas pumps and gas receipts.

Cannabis

- With the federal legalization of recreational cannabis, Ontario has been working to develop its distribution and private retail system. The Statement focuses on efforts to protect children and youth, keep roads safe and combat the illegal market. Ontario also states that revised federal timelines and changes in implementing legalized cannabis sales resulted in a net reduction of \$3 million in revenues.